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Nos. 86-495, 86-624 & 86-625

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNITED STATES OF AMERICA, *et al.*,
K MART CORPORATION and
47TH STREET PHOTO, INC.,
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS,
CARTIER, INC. and
CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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BRIEF AMICUS CURIAE OF NATIONAL MASS RETAILING INSTITUTE IN SUPPORT OF PETITIONERS

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BRIEF AMICUS CURIAE OF NATIONAL MASS RETAILING INSTITUTE IN SUPPORT OF PETITIONERS

INTEREST OF AMICUS CURIAE[1]

The National Mass Retailing Institute ("NMRI") is a non-profit trade association of discount retailers. NMRI's 125 members operate in every state of the union, maintaining over 20,000 stores, and account for over

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[1] Pursuant to Supreme Court Rule 36.2, all parties to this case—the Coalition to Preserve the Integrity of American Trademarks ("COPIAT"), the United States, K mart Corporation, and 47th Street Photo, Inc.—have granted written consents to this filing. Those consents have been filed with the Clerk of the Court.

$100 billion in annual domestic sales. NMRI members range in size from one-store businesses in rural communities to multi-billion dollar chains operating thousands of stores throughout the nation.

Although of diverse sizes, NMRI members share a common marketing approach: discount retailers offer consumers a wide variety of quality products at competitive, discount prices. NMRI members believe that consumers benefit from vigorous retail competition—be it competition among stores selling different products (inter-brand competition) or competition among stores selling the same product (intra-brand competition). In either case, consumers enjoy the lower prices which result from competition. At the same time, NMRI members know that consumers often desire certain services, such as promotional information, point-of-sale instructions, warranty protection, repair capability, or product return policies. NMRI members provide those services. In short, NMRI members strive to offer consumers the desired blend of low prices and needed services. If statistics are any measure, consumers have embraced the discount industry's marketing approach: discount retailers' sales volume has been estimated to have grown over 3400% in the last 25 years.[2]

NMRI members' success is, of course, dependent upon members' ability to obtain adequate supplies of products desired by consumers. Nearly all products sold by NMRI members are obtained directly from manufacturers or their authorized representatives. NMRI members are valued customers of many brand-name manufacturers of quality merchandise, including some products sold by the respondents.

Some products, however, cannot be obtained directly from those channels. When direct buying is not avail-

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[2] *True Look of the Discount Industry*, 26 The Discount Merchandiser 37, 43 (1986).

able, NMRI members may turn to the "parallel" or "grey" market to purchase genuine, brand-name products. For a variety of reasons, including oversupply, those products are available for purchase in foreign markets. After purchasing parallel imports, retailers then sell those products to domestic consumers in the same manner as they sell goods purchased through direct channels—at competitive prices and with appropriate services. The availability of parallel imports in additional retail outlets gives consumers a choice—a choice not only of competing brands within any store, but a choice of competing stores carrying a particular brand.

For years, this distribution channel has been permitted by public law, although subject to private contractual restraints. However, the opinion issued below by the United States Court of Appeals for the District of Columbia Circuit threatens this distribution system. The opinion, if upheld, will, as a matter of public law, deny NMRI members and their customers the opportunity to buy parallel imports.

Because the decision below adversely affects NMRI members and their customers, NMRI respectfully submits this brief amicus curiae, in support of petitioners, urging that the decision below be reversed. After over 50 years of lawful entry into the United States under the watchful and approving eyes of Congress and the Customs Service, parallel imports should not now be blocked by judicial fiat.

SUMMARY OF ARGUMENT

This case involves the appropriate use of tools of statutory construction. The statute to be construed, § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, either (1) prohibits the importation, without the United States trademark holder's consent, of *all* foreign-manufactured goods bearing a United States trademark or (2) permits the

entry of *some* of those goods in instances where the United States trademark holder and the foreign trademark holder are related to each other.

The United States Customs Service, by regulation, has historically favored the latter interpretation; the court below opted for the former. To decide which is the correct construction of § 526, this Court has at its disposal several tools of statutory construction. By proper use of these tools, this Court should conclude that the statute permits entry of foreign-manufactured trademarked goods into the United States when the owner of the United States trademark is related to the owner of the foreign trademark. The lower court's contrary—and erroneous—conclusion is attributable to its insufficient use of all of the available tools of statutory construction.

The starting point of statutory construction is, of course, the statute itself. Section 526, read without benefit of any other materials, might appear to favor the construction urged by respondents: a ban on parallel imports. But the statutory language is only a starting point. The Court is free to—indeed, must—assess all the extrinsic evidence as well, particularly where that evidence points to a legislative intent at odds with the statute's literal language. In this case, there is ample extrinsic evidence of the meaning of § 526, evidence which supports the Customs Service's interpretation.

Perhaps the most important extrinsic evidence is the impetus for the legislation. As stated by Justice Cardozo, a statute comes "freighted with the meaning imparted to [it] by the mischief to be remedied . . . ." *Duparquet Co. v. Evans*, 297 U.S. 216, 221 (1936). Understanding the "mischief" prompting passage of § 526 aids this Court's task.

Congress enacted § 526 in 1922 on the heels of an appellate court decision, *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). *Katzel*

held that an American purchaser of a trademark could not, under then-existing statutes, block the importation of goods manufactured and purchased abroad which bore the same trademark. Two features of the *Katzel* opinion were critical: (1) neither the competing importer nor the holder of the foreign trademark was related to the American company and (2) the American company had not only purchased the exclusive right to the trademark, but had also developed an independent goodwill in the United States. Congress reacted to the *Katzel* opinion by rejecting its holding. Congress, however, did not try to legislate beyond the mischief of *Katzel*. Remarks of the legislation's proponents evidence an intent to overrule only *Katzel* and, otherwise, to leave intact the rule of law allowing the importation of foreign-manufactured trademarked goods where the U.S. trademark holder and the foreign trademark holder were related.

Agency interpretation is yet another tool of statutory construction. For 50 years, the United States Customs Service has historically construed § 526 as not applicable in "related persons" cases. That is, the expert agency entrusted with enforcing the Act has followed the "mischief" rationale. That consistent and long-standing interpretation of the statute merits this Court's deference. *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984).

Another tool of statutory construction is subsequent Congressional review and treatment of the enforcing agency's regulations. The Customs Service's interpretation of § 526 has been before Congress many times in the last 60 years. Congress not only has not revoked this interpretation, it has affirmatively endorsed it. Such Congressional treatment is not only important evidence of a statute's meaning, it also serves as a legislative ratification of the interpretation. *Seatrain Shipbuilding Corp. v. Shell Oil Co.*, 444 U.S. 572 (1980).

It is not, of course, this Court's function to decide the policy question of whether parallel imports are or are not in the public interest. Respondents have, nonetheless, proffered arguments in support of their contention that the sale of parallel imports is both injurious to consumer welfare and unfair to competition. Ample evidence exists, however, that the continued entry of parallel imports is in the consuming public's best interest. Parallel imports keep prices lower than they would otherwise be. Extensive state and federal regulations also insure that consumers of parallel imports will be protected from any unscrupulous trade practices—the same protections afforded to consumers of any consumer product. As to claims of unfair competition, trademark holders have ample private means available to obtain desired ends. Foremost among these private remedies are contract provisions calling for restricted distribution. A trademark holder may, by contract, ordinarily obtain the same goal sought in this litigation: a ban on transshipment by the trademark holder's distributors. If such a result is to be obtained, the free market ought to provide it—not public law.

Because the lower court did not properly employ the available tools of statutory construction, that court's opinion should be reversed. As has long been the law, foreign-manufactured trademarked goods ought freely to enter this country when the United States trademark holder and the foreign trademark holder are related.

ARGUMENT

I. SECTION 526 OF THE TARIFF ACT AUTHORIZES THE PARALLEL IMPORTATION OF TRADEMARKED GOODS WHERE THE DOMESTIC AND FOREIGN TRADEMARK HOLDERS ARE RELATED

The cornerstone of the lower court's decision is its strict construction of the language of the statute in question, § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (Pet. No. 86-625 at 10a-11a, 22a). The literal language, it is held, does not "admit of any exception" for related parties (*id.* at 10a). Hence, the court concluded that all parallel imports must be barred.

The court's strict construction has produced a result which is at odds with the enacting Congress' intent, at odds with 50 years of regulatory interpretation, at odds with subsequent Congressional endorsement, and at odds with decades of commercial reliance. It is an erroneous decision, resulting from the court's failure to employ properly all the tools of statutory construction.

The principal case relied upon by the lower court to support its strict construction—*Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984) (Pet. No. 86-625 at 10a)—does not prohibit a reviewing court from looking beyond the literal language of the statute. To the contrary, *Chevron* invites a court to "employ[] traditional tools of statutory construction" to ascertain Congress' intent. 467 U.S. at 843 n.9. Those traditional tools are hardly limited to the "plain meaning" rule (Pet. No. 86-625 at 11a); that rule is only one of "the most basic general principles of statutory construction [which] must yield to clear contrary evidence of legislative intent." *National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers*, 414 U.S. 453, 458 (1974). A more complete set of tools of statutory construction used to establish Congress' intent includes: the "mischief" to be remedied, the views of the enacting leg-

islators, contemporaneous judicial interpretation, historical agency interpretation, and subsequent Congressional treatment. This court has traditionally supported—indeed mandated—consideration of these other factors to determine and to effectuate Congressional intent. *See Church of the Holy Trinity v. United States*, 143 U.S. 457, 459 (1892); *see also United States v. Ryan*, 284 U.S. 167, 175 (1931) ("A literal application of a statute which would lead to absurd consequences is to be avoided whenever a reasonable application can be given which is consistent with the legislative purpose.").

While the lower court did recite some of these extrinsic measures of legislative intent, it did not give them sufficient deference. The court seems to have reached its conclusion relying almost exclusively on the 100-odd words of § 526, treating the extrinsic evidence as a tedious chore to be completed and not a rich vein of information to be mined. The court, it may be said, appears to have approached its task with a skeptic's view of the extrinsic evidence.

That approach is deficient and its result should be reversed. The extrinsic evidence compels the conclusion that the enacting Congress—and subsequent Congresses—left open the door to parallel imports where the foreign and the United States trademark holders are related companies. This conclusion is compelled on understanding what "mischief" prompted passage of the statute, how the statute has traditionally been construed, and how subsequent Congresses have treated the issue. All these signs point to the same construction: § 526 is meant to prohibit parallel imports only where the foreign and domestic trademark holders are unaffiliated, independent persons.

A. Congress Enacted Section 526 Of The Tariff Act In Response To The *Katzel* Opinion: *Katzel* Was The "Mischief To Be Remedied."

All parties to this case, and the court below, agree that, in 1922, Congress enacted § 526 of the Tariff Act (Tariff

Act of 1922, Ch. 356, § 526, 42 Stat. 975 (current version at 19 U.S.C. § 1526 (1980)) in response to the opinion of the United States Court of Appeals for the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).[3] As Judge Learned Hand noted, nearly contemporaneously with the enactment of § 526, it "was intended only to supply the casus omissus, supposed to exist in Section 27 of the Act of 1905 . . . because of the decision of the Circuit Court of Appeals in *A. Bourjois & Co. v. Katzel*. . . ." *Coty, Inc. v. Le Blume Import Co.*, 292 F. 264, 269 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923).

It follows that interpretation of § 526 must be made in the context of the *Katzel* opinion. The *Katzel* opinion was, in short, the "mischief" to be remedied by the statute: "words or phrases in a statute come 'freighted with the meaning imparted to them by the mischief to be remedied and by contemporaneous discussion. In such conditions history is a teacher that is not to be ignored.'" *St. Paul Fire & Marine Ins. Co. v. Barry*, 438 U.S. 531, 545-546 (1978), *citing Duparquet Co. v. Evans*, 297 U.S. 216, 221 (1936) (Cardozo, J.).

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[3] Brief for Respondent in Response to Petitions Nos. 86-495, 86-624, and 86-625 for a Writ of Certiorari ("COPIAT Br.") at 10; Petition No. 86-624 for Writ of Certiorari by 47th Street Photo ("Pet. No. 86-624") at 5; Petition No. 86-495 for Writ of Certiorari by K mart ("Pet. No. 86-495") at 13; Petition No. 86-625 for Writ of Certiorari by United States ("Pet. No. 86-625") at 4 n.2; *COPIAT v. United States*, 790 F.2d 903, 909 (D.C. Cir. 1986) (Pet. No. 86-625 at 12a) (*Katzel* was "a major stimulus for the enactment of Section 526. . . ."). *See also Olympus Corp. v. United States*, 792 F.2d 315, 319 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757 (". . . Section 526 was adopted primarily to overturn . . . *Katzel*. . . ."). *But see Vivitar Corp. v. United States*, 761 F.2d 1552, 1561 (Fed. Cir. 1985), *cert. denied*, 106 S.Ct. 791 (1986) (" . . . reversal of the *Katzel* decision was one purpose of § 1526, [but] it was clearly . . . not the *sole* purpose.").

What was the mischief of *Katzel*? The Second Circuit had permitted the parallel importation of a product bearing a trademark where the foreign trademark holder and the United States trademark holder were separate, unaffiliated entities. Bourjois, the U.S. company, acquired from a French partnership, Wertheimer, the French company's cosmetic business in the United States—including the U.S. trademark and the exclusive right in the United States to repackage and sell "Poudre Java." Bourjois spent considerable time and money to build up the business in the United States and the public eventually viewed Bourjois as the source of the product. 260 U.S. at 691.[4]

A third person, Katzel, bought the product abroad and imported it into the United States in its original French packaging, marked "Poudre de Riz de Java." The Second Circuit ruled that, despite Bourjois' purchase of the U.S. trademark and its lack of control over Wertheimer's activities, the powder could enter the U.S. without violating existing trademark laws. 275 F. at 543.[5]

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[4] Justice Holmes subsequently emphasized that the public regard of the American company, Bourjois, as the source of the powder was the basis for the Supreme Court reversal of the Second Circuit opinion. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924). In contrast, contemporary parallel imports are often characterized by a public regard for the foreign manufacturer as the product source.

[5] At the time, Section 27 of the Trademark Act of 1905, Pub. L. No. 58-84, § 27, 33 Stat. 724 (1905) (as amended 15 U.S.C. § 1124 (1982)) provided that "no article of imported merchandise which shall copy or simulate . . . a trademark registered . . . shall be admitted to entry . . . ." The Second Circuit, construing that Act, concluded that Katzel's packaging bearing the "Java" trademark did not "copy or simulate" Bourjois' packaging bearing the same trademark where both packages contained identical powder. 275 F. at 543. That holding was consistent with the historical view, prior to enactment of § 27, that a purchaser of the exclusive American rights to a trademark of foreign-manufactured products could not enjoin the importation of identical, genuine goods purchased abroad. *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886).

Congress reacted. It viewed Wertheimer's conduct as tantamount to a "fraud." 62 Cong. Rec. 11,603 (1922). That is, the two principal sponsors of the bill—Senators McCumber and Sutherland—stressed the fact that Wertheimer, having sold the U.S. trademark to Bourjois, nonetheless allowed products bearing that mark to be shipped to the United States.[6] The Act was intended to

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[6] Senator McCumber noted:

> ". . . the courts have held that we cannot prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker has sold trade-mark and all, patent and everything in the United States.

62 Cong. Rec. 11,604 (1922).

Senator Sutherland stated:

> [A]ll that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

Id. at 11,603. *See also id.* at 11,604 (Senator McCumber discussing sale of "Bayer's Aspirin" trademark).

The court below characterized these comments as "best understood as efforts by proponents of a bill to understate its significance by focusing on its most notorious targets" (Pet. No. 86-625 at 17a). The court is mistaken: those proponents were defining, not understating, the bill's coverage. They were responding to *Katzel*.

To be sure, certain proponents of the bill seemed confused on whether Wertheimer—the seller of the trademark—or Wertheimer's foreign customer, Katzel, had introduced the product into the United States (Pet. No. 86-625 at 16a). That distinction was then, and is now, largely irrelevant: it is the relationship between the U.S. trademark holder and the foreign trademark holder which is critical to construing § 526. Congress in 1922 concluded that, where such persons are independent, the U.S. holder can block entry. But when they are related, the goods may enter. The fact that the parties are related is tantamount to a consensual entry.

prevent such "fraud" by denying importation where the foreign trademark owner had sold the U.S. trademark rights to an unrelated party.

Senator McCumber specifically denied the statute's applicability to imports where there had been no sale of the trademark rights: "[I]f there has been no transfer of trademark, that presents an entirely different question . . . . The mere fact of a foreigner having a trademark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by the provision" (*id.* at 11,605).[7]

In short, Congress enacted § 526 to remedy the mischief of *Katzel*: the "fraud" upon an independent, unaffiliated American purchaser of a trademark who, having convinced the public that the product in question was uniquely its own, nonetheless faced competition from an imported product bearing the same mark. The statute was *not* intended to address—and therefore should not be construed to address—the parallel importation of products where the U.S. trademark holder is related to the foreign trademark holder and where, as a result, competition between the two products in question is ultimately in the control of the common enterprise.

This construction of § 526, one which draws on the mischief prompting the legislation and on enacting legislators' comments in 1922, makes sense today.[8] This con-

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[7] Senator McCumber's statement came in response to an inquiry from Senator Lenroot, seeking to know whether an international corporation could designate an American agent to register its trademark in the United States and then use that registration to bar unauthorized imports. 62 Cong. Rec. at 11,605.

[8] A construction of § 526 emphasizing the mischief of *Katzel* is hardly novel. Indeed, it is the focus of many legal scholars over the past 50 years. *E.g.*, Note, *Trade-Mark Infringement: The Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign*

struction has always made sense, and it is the same interpretation long drawn by the expert agency entrusted with enforcing the statute.

B. Current And Historical Customs Regulations Have Properly Reflected Congressional Intent

Mindful of Congress' intent in 1922, the Customs Service has, over the past half-century, construed and enforced § 526 to remedy only the mischief of *Katzel* and, otherwise, to relegate control of parallel imports to private law. A 1936 regulation provided that a domestic trademark holder could protest the entry of products bearing that trademark but could not do so when the foreign and United States trademarks were "owned by the same person, partnership, association, or corporation." T.D. 48,537, 70 Treas. Dec. Int. Rev. 336 (1936).[9]

In 1953, the regulation was clarified to provide that the common ownership limitation of § 526 also embraced "related companies." T.D. 53,399, 88 Treas. Dec. Int. Rev. 384 (1953). While Customs temporarily deleted that regulation in 1959, the court below conceded that Customs, over the next decade, "continued to regard related companies as outside the scope of Section 526's protection" (Pet. No. 85-625 at 26a). Finally, in 1972, Customs, following full public scrutiny and ample oppor-

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Company, 64 Yale L.J. 557, 566 and nn.48-51 (1955); Note, *Affiliated Trademark Owner Cannot Prevent Importation of Genuine Goods Bearing the Mark*, 71 Harv. L. Rev. 564, 565 (1958).

[9] The court below, in a strained passage, attempted to minimize the import of the 1936 regulations by suggesting that they were not based on § 526 of the Tariff Act, but only on § 27 of the Trademark Act. The analysis is unpersuasive. The court conceded that Customs, in 1943, specifically stated that the "related parties" regulation, Article 518, implemented § 526 (Pet. No. 86-625 at 23a and n.14). Further, the court acknowledged that Article 518, prior to 1936, also dealt with § 526 (*id.* at 23a). It is difficult to accept the court's logic that Article 518 did not, in 1936, interpret § 526 when the same Article interpreted § 526 both before and after 1936.

tunity to comment, promulgated the regulations now under attack by COPIAT and other respondents. 19 C.F.R. § 133.21 (1986).

In short, Customs, for over 50 years, has authorized parallel imports where U.S. and foreign trademarks are held by related persons. This 50-year period of administrative construction is significant: Customs' consistent and long-standing evaluation of § 526 merits substantial deference by this Court in construing the statute. *E.g.*, *Chevron, supra*, 467 U.S. at 844-845. This Court need not find that the Customs construction is the only reasonable one, or even the one which this Court would adopt if it were to write on a fresh slate; it is enough to conclude that Customs has acted reasonably in construing the intent of the Act. *Id.* at 843 n.11; *Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978). Such a conclusion is not too difficult: Customs' regulations reasonably construe the 1922 statute because they remedy the very "mischief" prompting the legislation—the unfairness to an independent U.S. trademark holder facing competition from trademarked products emanating from an unrelated foreign source.

The court below disagreed with this reasoning, finding that Customs, the expert agency entrusted by Congress to interpret the statute, did not act "reasonably" (Pet. No. 86-625 at 29a), or "carefully" (*id.* at 28a-29a) in that its reasoning was "poorly articulated and vacillating" (*id.* at 28a). The lower court opinion could be criticized if only for positing far too harsh a standard for judging the agency—a standard which would appear to require an agency to write with near literary precision. But, the appropriateness of that standard aside, Customs' historical reasoning has in fact been both adequately articulated and remarkably consistent for half a century.

Customs' historical reasoning, when distilled, is simply that the government ought not to police the restricted

distribution system of international companies which have both U.S. and foreign components. Customs has believed, appropriately, that Congress has never asked the federal government to fill that role. In explaining that rationale, Customs has drawn from many sources—including prevailing antitrust policies, international trade policies, and—most important—Congressional intent. While, over time, antitrust theories may have changed on the legality of *private* efforts to control distribution, Customs' adherence to its own long-standing views of Congressional intent is hardly "vacillating." Customs' regulations reflect, instead, the constant public policy wisdom of keeping government out of the business of enforcing restricted distribution schemes. In short, Congress directed Customs only to block entry of goods when it was beyond the ability of the U.S. trademark holder to do so—when that entity was not related to the foreign holder. And Customs has honored that directive by refusing to intercede when parallel imports are traced to related parties.

The lower court's attempt to minimize the agency's expertise is perhaps, in the end, judicial discomfort with the substantive rule at issue—the law's tolerance of a parallel import market. If that long-standing rule is misguided, it is up to Congress to change it. *E.g.*, *Flood v. Kuhn*, 407 U.S. 258, 284 (1972). And, as we shall see, Congress, despite ample opportunities, has not done so.

C. Congress Has Consistently Ratified The Customs Regulations

On many occasions in the past 60 years, Congress has reviewed the issue of parallel imports. Not only has Congress desisted from changing Customs regulations, it has affirmatively endorsed them. Subsequent Congresses have affirmed that the 1922 legislation had one intent: to remedy the mischief of *Katzel*.

Examples of subsequent Congressional ratification abound. Perhaps most clear is the 1977 statement in a House Report:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977) (Pet. No. 86-625 at 8a). While the court below recited this Report language, it also quickly dismissed it as insignificant by, first, noting the absence of any comparable statement in either the Senate or Conference Reports and, second, characterizing the Report as somehow too "casual" (Pet. No. 86-625 at 28a and 30a). That treatment of the views of one chamber of Congress is improper.

Indeed, in comparable circumstances, this Court has acknowledged the "significant weight" of such legislative materials. For example, in *Seatrain Shipbuilding Corp. v. Shell Oil Co.*, 444 U.S. 572 (1980), the Court construed a 1936 statute, § 506 of the Merchant Marine Act (46 U.S.C. § 1156), which, by its express terms, did not explicitly allow the action taken by the Secretary of Commerce. The Court, having found the early legislative history "ambiguous, even puzzling" (*id.* at 590), turned to two factors for assistance: (1) consistent agency interpretation of the section which permitted the conduct challenged and (2) subsequent Congressional review and approval of the conduct (*id.* at 595-596).

Concerning the first factor—consistent agency interpretation—the Court noted that "while the agency's rationale has not always been persuasive, it has not wavered from its general understanding of its powers and

the extent to which their exercise is consistent with the goals of the Act." Concerning the second factor—subsequent Congressional review—the Court relied upon a single House Committee Report issued 35 years after the initial legislation and concluded (*id.* at 596) (citations omitted):

> The understanding of the 92d Congress seems clear. And while the views of subsequent Congresses cannot override the unmistakable intent of the enacting one . . . such views are entitled to great weight . . . and particularly so where the precise intent of the enacting Congress is obscure.

This Court, then, in *Seatrain* endorsed what the court below refused to do: in construing a statute, a court may go beyond the express terms of the statute and rely upon consistent agency interpretation and subsequent Congressional history—including history found in a single House Report. The 1977 House Report construing § 526 is entitled to the same "significant" weight—and not "casual" regard—as the Report relied upon in *Seatrain*.

In any event, the 1977 House Report does not stand alone as evidence of a subsequent Congress' ratification of Customs' regulations. More recently, in 1984, Congress enacted the Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, Title II, Ch. XV, §§ 1501-1503, 98 Stat. 2178 (codified at 15 U.S.C. §§ 1115-1118 (Supp. 1986)). In its Report on that bill, the Senate Judiciary Committee noted that the statute was not intended to curtail parallel imports:

> [The bill] does not include within its coverage so-called "gray market" goods—*i.e.*, authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to permit the importa-

> tion of such goods when foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

S. Rep. No. 526, 98th Cong., 2d Sess. 3 (1984).

In sum, Congress, in legislating in this field over the last half of a century, has never directed that the "related person" interpretation of § 526 be changed. It is safe to conclude, then, that Congress has not only acquiesced in the regulatory interpretation; it has also recognized that the interpretation was precisely what it intended in 1922. *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 379-382 (1982).[10]

II. CUSTOMS' REGULATIONS ARE BASED UPON AMPLE PUBLIC POLICY CONSIDERATIONS

In their first brief in this Court, respondents make a frontal policy attack on the existence of the grey market (COPIAT Br. at 2-4). Respondents contend that ". . . sellers of grey-market goods have a free ride on the trademark owners' expenditures . . ." and that such sellers, notably "discount outlets, . . . offer less service" (*id.* at 3). While respondents claim not to seek this court's resolution of these public policy arguments (*id.* at 4), they invite the Court to view these contentions as "background *facts*" (*id.*) (emphasis added). And these same arguments apparently formed the basis for respondents' unsuccessful request for equitable relief before the district court (Pet. No. 86-625 at 43a-44a).

In short, respondents, in this Court and in the courts below, have invited a debate on the merits of the parallel

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[10] Recently, Judge Harold Greene of the United States District Court for the District of Columbia found that there has been "congressional acquiesence in the Customs Service's interpretation of Section 526 . . . ." *Lever Bros. Co. v. United States*, No. 86-3151, slip op. at 6 (D.D.C. January 21, 1987) (denying preliminary injunction sought against Customs Service).

import issue. However, Congress has already resolved that issue in favor of the continued importation of parallel imports where the foreign and domestic trademark holders are related. Even if this Court were authorized to establish an appropriate policy, a wealth of reasons supports the present Customs Service regulations: (a) the availability of parallel imports benefits the consumer; (b) Customs' policy is consistent with the practices of our foreign trading partners; and (c) extensive federal and state laws adequately regulate competition and protect the consumer.

A. Parallel Imports Benefit The Consumer

Parallel imports are first-quality, genuine goods, manufactured abroad and legally imported into the U.S. for sale through competitive channels. As acknowledged by respondents, parallel imports may include, for examples: cameras, binoculars, watches, perfumes and cosmetics, and electronic goods (COPIAT Br. at 3). Absent parallel importation, these products would be imported only through restricted distribution networks controlled by the foreign manufacturer; consumer prices on these goods would likely be higher. With parallel imports, however, there is price competition for these goods—competition which enables American consumers to obtain the lower prices offered in foreign markets.[11]

As it happens, the particular product markets where parallel imports are prevalent tend to be highly concentrated, often characterized by declining market shares of United States-based producers and distinct market power for differentiated brand name products. Such characteristics define markets which benefit from vigorous intra-brand price competition. *See generally* C. Hills, *Antitrust Advisor* § 2.07 (2d ed. 1985).

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[11] Parallel imports are often sold to U.S. consumers at discounts of 25% to 40%. 132 Cong. Rec. S8741 (daily ed. June 26, 1986) (comments of Senator Chafee on introducing S. 2614).

For example, in the photographic equipment and supplies market, "the 8 largest [companies] account for 85% of the total value of [domestic] industry shipments. . . ." Department of Commerce, *1986 U.S. Industry Outlook* at 35-1 (1986). That is a concentrated market, with insufficient numbers of producers to produce vigorous increased inter-brand price competition. Accordingly, intra-brand competition is needed to reduce prices. Further, "[i]mports supply virtually all of the 35mm cameras for the U.S. market" (*id.* at 35-2). Thus, were § 526 construed to enforce exclusive distribution channels, foreign camera manufacturers would obtain, as a matter of law, the anticompetitive benefits of reduced competition—entitlements not enjoyed by domestic manufacturers. Domestic manufacturers which seek restricted distribution must obtain it by private means; their distribution channels are honed by the market and not determined by public law.

Similarly, in the consumer electronics industry—another parallel import market identified by respondents—imports are extremely important. The Commerce Department noted (*id.* at 45-9) that foreign-manufactured color televisions account for approximately 50% of U.S. sales and that foreign-manufactured radios account for approximately two-thirds of the U.S. market. Overall in the consumer electronics field, imports represent 63% of 1985 consumption (*id.*). If the door allowing entry of parallel imports is closed, many of these foreign-manufactured goods will enter the United States only through restricted distribution channels, removed from intra-brand competition.

These observations on the consumer benefits of parallel imports are not exclusively the views of the discount retail industry.[12] Recently, the Bureaus of Competition,

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[12] NMRI members are well qualified to comment on affected parallel import product markets. Discount stores and catalog show-

Consumer Protection and Economics of the Federal Trade Commission filed extensive comments with the United States Customs Service in response to a Customs Service inquiry on parallel imports.[13] Those comments stated, in part: "[a]ny effort by the Customs Service to make gray marketing more difficult in the future might therefore harm consumers of goods whose prices are now constrained by the threat of gray market imports" (*id.* at 15). In short, the sale of parallel imports in the United States benefits consumers by providing competition and resultant lower prices.

B. Customs' Regulations Are Consistent With Foreign Trading Partners' Policies

The Customs regulations are not, as respondents suggest (COPIAT Br. at 6), based on "vacillating and uncertain" reasoning; the regulations in fact reflect a constant and certain rule of international trade. As Senator Chafee has recently observed:[14]

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rooms, together, account for over 19% of the dollar volume of consumer electronics, over 26% of jewelry and watches, and 30% of the camera and photo supplies sold in the United States. *True Look of the Discount Industry, supra* note 2, at 92, 94, and 102.

[13] *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission*, October 17, 1986 (*"FTC Comments"*). submitted in response to 51 Fed. Reg. 22005 (1986). The filing noted that the comments "do not necessarily represent the views of the Commission or of any individual Commissioner. The Commission, however, has authorized submission of these comments."

[14] 132 Cong. Rec. S8742 (daily ed. June 26, 1986). *See generally* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 452-453 (1982) ("In general, if the trademark rights are held by one person or if the domestic and foreign owners are related, the exercise of domestic trademark rights to block parallel importation is apt to be denied. On the other hand, if the domestic and foreign trademark owners have no relation and both trademarks are acquired independently, a domestic trademark owner is more likely to succeed in blocking parallel importation.").

> Parallel markets are legal in Japan, France, Germany, and in every other country which is a major American trading partner. It would be entirely inappropriate for the U.S. Government to provide protection to foreign manufacturers whose own governments do not provide comparable protection for discriminatory pricing by American manufacturers.

Were the lower court's invalidation of the Customs regulations to stand, then, the United States policy on parallel imports would be starkly at odds with the policies of our major trading partners. That is not in the national interest—a conclusion which Congress has already reached. Indeed, as noted in the United States petition (Pet. No. 86-625 at 8) (footnote omitted):

> The United States, the Department of the Treasury, and the Customs Service consider the Customs Service regulations an established element of the Nation's foreign trade policy. The regulations, which reflect the Customs Service's interpretation of a statute that Congress has charged it with administering, have been part of this country's international commercial policy for over 50 years.

C. Parallel Import Sales Are Subject Both To Private Contract And Consumer Protection Regulation

Respondents have depicted the parallel import phenomenon as one causing (1) "an erosion of the return on trademark owners' investment in . . . goodwill . . ." and (2) "consumer welfare . . . [to] suffer" (COPIAT Br. at 3-4). These dramatic consequences—essentially allegations of both unfair competition and consumer injury—are allegedly attributable to the "free rider" characteristics of parallel import marketing. That is, respondents claim that retailers which sell parallel imports are "free riders" on the efforts of the authorized distribution chain (*id.* at 2-3). Discount retailers, it is contended, do not share the expenses of advertising and other promotional activities, including after-sales serv-

ices, nor, it is alleged, do they provide adequate warranties (*id.*). And, it is alleged, in the long run consumers suffer as a result (*id.*).

Those allegations are speculative and illogical. The free rider argument rests initially on the premise that a discount price retailer cannot afford to, and hence does not, provide adequate service. Evidence aside, that hypothesis is faulty. A low price need not result in less service; it is, instead, consistent with efficient operations and low profit margins. Conversely, a high price is no guarantee that services will in fact be performed by the dealer. Low prices and good service are not mutually exclusive; high prices and good service are not necessarily conterminous.

Theory aside, the free rider allegation ignores the substantial evidence that vendors of parallel imports offer services, including warranties and return policies, that are often more favorable than those offered by the manufacturer. *E.g.*, S. R. Walton, *Antitrust, RPM, and the Big Brands: Discounting in Small-Town America*, 14 Antitrust L. and Econ. Rev. 81, 85 (1982) (interview with executive of a major discount retailer: ". . . we don't have the frills but we have a satisfaction guaranteed policy, refunds without receipts, no questions asked and no accusations . . . .").[15]

In any event, even if there were a bona fide "free rider" concern with parallel imports, firms have many private options available to address that concern. Fore-

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[15] Senator Chafee recently stated that ". . . most discount retailers offer even more extensive warranties than the manufacturers. Sales of parallel imports would not continue to rise year after year if consumers were being deceived or confused by buying from price-competitive sources." 132 Cong. Rec. S8742 (daily ed. June 26, 1986). In addition, the *FTC Comments*, *supra* note 13, citing an unpublished Commerce Department study, found that grey market retailers "commonly offer their own warranties to replace the manufacturer warranty." Appendix A at 5 nn.12 and 13.

most among these are contract remedies. This Court has sanctioned contract clauses by which a manufacturer prohibits its authorized distributors from transshipping goods to unauthorized distributors. *E.g., Rice v. Norman Williams Co.*, 458 U.S. 654 (1982).[16] Such contract provisions, if not unreasonable, can protect a manufacturer which claims a need to restrict sales to only "authorized" outlets.

A manufacturer also may, in certain instances, allege tortious interference with contractual relations if the manufacturer can establish that a seller of parallel imports obtained the goods by inducing the unjustified breach of contract by an authorized distributor.[17] Of course, such a lawsuit will necessarily entail questions of knowledge, intent, and consent.[18] It appears that a trademark holder may also have some remedies under the trademark laws if a retailer of parallel imports falsely represents that it is authorized by the manufacturer to sell those goods.[19] Finally, there may also be

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[16] *See also Sports Center, Inc. v. Riddell, Inc.*, 673 F.2d 786 (5th Cir. 1982). Domestic manufacturers, which do not enjoy any statutorily-mandated restricted distribution rights comparable to those claimed by respondents under § 526, have long employed these private means. It would be ironic, indeed, if § 526—a statute intended to protect American companies—were construed to give foreign manufacturers restricted distribution entitlements not enjoyed by domestic manufacturers. Such a result could conceivably encourage domestic manufacturing to move offshore to take advantage of restricted distribution protection mandated by public law.

[17] B. Coggio, J. Gordon, and L. Coruzzi, *The History and Present Status of Gray Goods*, 75 Trademark Rep. 433, 491-493 (1985).

[18] *Cf. Johnson and Johnson Products, Inc. v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir. 1986) (construing applicability of Uniform Commercial Code provisions on good faith purchaser to vendor of grey market goods).

[19] *See Seiko Time Corp. v. Alexander's, Inc.*, 218 U.S.P.Q. 560 (S.D.N.Y. 1982).

trademark remedies in private litigation where the product involved is in fact not "genuine".[20]

Part of the policy underlying the Customs regulations is the recognition that private suits are best suited to address the complex fact patterns of each parallel import case. For example, there are many defenses to a trademark infringement suit—defenses which would never be considered if § 526 were construed as an automatic bar to entry for all parallel imports. The defenses of estoppel, laches, failure to control, and abandonment are applicable in trademark cases.[21] The Federal Circuit recognized the importance of such defenses in parallel import litigation in *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, 106 S.Ct. 791 (1986). *See also Lever Bros. Co. v. United States*, No. 86-3151, slip op. at 5 (D.D.C. Jan. 21, 1987) ("the variations in gray market importation are extensive and confusing.").

These private remedies—contract opportunities and litigation—assure trademark holders that competition with sellers of parallel imports will be fair. Certain public laws also assure that consumers will be protected. For example, the Federal Trade Commission, under the Magnuson-Moss Warranty Act[22] and the Federal Trade

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[20] *E.g., Model Rectifier Corp. v. Takachiho Int'l, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983); *El Greco Leather Products Company v. Shoe World, Inc.*, Nos. 86-7032 and 86-7038, slip op. (2d Cir. December 3, 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985).

[21] *E.g., Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 420 (S.D. Fla. 1983) (discussing trademark holder's delay in seeking to enjoin parallel imports).

[22] The Magnuson-Moss Warranty Act ("the Act") (15 U.S.C. §§ 2301-2312 (1982)) and the implementing regulations (16 C.F.R. § 700 (1986)), serve to eliminate confusion over product warranty terms. The Act sets out specific requirements for warranties. 15 U.S.C. § 2304. Manufacturers are required to honor the written

Commission Act,[23] is active in the field. The FTC has the authority to prosecute retailers which engage in unfair or deceptive practices, to enforce the Magnuson-Moss Warranty disclosure rules, and to initiate rulemaking on consumer protection questions. Because the FTC is better suited to those tasks than is Customs, the Customs regulations quite properly do not try to bar entry of selected kinds of parallel imports.

State governments have also been active in this field. California, Minnesota, and Oregon have recently enacted consumer product warranty acts[24] and the New York State legislature recently passed a statute requiring specific warranty disclosures in the sale of parallel imports. The New York statute exempts sellers from the disclosure requirement where the seller provides a warranty "as good or better" than the warranty provided from the manufacturer.[25]

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warranties they provide with their product unless they explicitly disclaim those warranties in writing. As a result, a foreign manufacturer has the option of disclaiming its warranty on products it does not intend to sell in the United States market by placing a clear and conspicuous label on those goods. 15 U.S.C. §§ 2302 (a)(12), 2304(3). And a manufacturer can notify consumers that a warranty is valid only if the product is purchased at an authorized outlet. If the manufacturer does not disclaim or condition its warranty, then it is required by federal law to honor it.

[23] 15 U.S.C. § 45(a) (1973 and Supp. 1986). The *FTC Comments*, *supra* note 13, affirmed that the Commission had undertaken investigations, under authority of the Federal Trade Commission Act, of various practices associated with the sale of grey market goods. The Commission noted that there was insufficient evidence of systematic problems and insufficient evidence "to substantiate claims of consumer injury resulting from the warranty practices of grey market importers" (*id.* at Appendix A at 6).

[24] *See* Cal. Civ. Code §§ 1790-1797 (1985 and Supp. 1987); Minn. Stat. Ann. §§ 325G.17-325G.20 (West 1981); Oregon Rev. Stat. Ann. §§ 72-8010 to -8200 (1985). *See* D. Rice, *Product Quality Laws and the Economics of Federalism*, 65 B.U.L. Rev. 1 (1985).

[25] N.Y. Gen. Bus. Law 218-aa(7) (McKinney 1987).

In short, there are already extensive federal and state regulations which ensure fair competition and protection of the consumer in the marketing and sale of parallel imports. What is not needed is a total ban on parallel imports. Congress has never sought such a harsh—indeed absurd—result. Rather, in § 526, Congress acted only to correct the mischief of *Katzel*.

CONCLUSION

For the above reasons, the decision of the Court of Appeals for the District of Columbia should be reversed. The United States Customs Service regulations, which for half a century have allowed the entry of parallel imports in "related persons" circumstances, correctly serve Congress' intent.

Respectfully submitted,

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